

COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

APPLICATION OF BIG SANDY RURAL)
ELECTRIC COOPERATIVE CORPORATION TO) CASE NO. 95-383
ADJUST ELECTRIC RATES)

O R D E R

IT IS ORDERED that Big Sandy Rural Electric Cooperative Corporation ("Big Sandy") shall file no later than January 22, 1996 an original and 12 copies of the following information with the Commission, with a copy to all parties of record. Each copy of the data requested should be placed in a bound volume with each item tabbed. When a number of sheets are required for an item, each sheet should be appropriately indexed, for example, Item 19(a), Sheet 2 of 6. Include with each response the name of the witness who will be responsible for responding to questions relating to the information provided. Careful attention should be given to copied material to ensure that it is legible. Where information requested herein has been provided along with the original application, in the format requested herein, reference may be made to the specific location of said information in responding to this information request.

1. Refer to the testimony of David Estep in Exhibit H-2, page 2 of 3, of the Application. Provide workpapers showing how the Times Interest Earned Ratio ("TIER") of 1.03 is calculated.

2. Provide complete details regarding the basis upon which a ratio of 2.00 was determined to be the appropriate TIER for Big Sandy in this case.

3. Refer to Exhibit K, page 3 of 6, of the Application.

a. What were the primary factors contributing to the reduction in net margins from \$435,757 in 1993 to (\$215,472) in 1994?

b. What were the primary factors contributing to the increase in net margins from (\$215,472) in 1994 to (\$29,918) in the test year?

4. Refer to Exhibit M, page 2 of 7, of the Application. Explain the capital credit gains of \$11,290 and the capital gains and losses of \$106,515.

5. Refer to Exhibit M, page 4 of 7, of the Application.

a. For each type of insurance listed, describe the level of coverage provided, including the amounts of employee deductibles, copayments, and monthly rates in effect at the end of the test year.

b. Provide the test year actual premium payment and state the number of employees who have coverage under each type of insurance listed at test year end.

c. Provide a schedule of the single and family monthly rates for the plans for the test year. State the amount of any premium which employees must pay.

d. Provide the latest premium statement(s) issued during the test year.

e. How does Big Sandy procure these types of coverage? If competitive bidding is used, state when the last bids were taken, identify the bidders, the respective bids, and the reason(s) for the selection of the successful bidder. If coverage is not procured through competitive bidding, explain in detail why not.

6. Refer to Exhibit M, page 4 of 7, of the Application.

a. Provide all materials Big Sandy provides to its employees concerning its 401(k) plan. Are all employees eligible to participate in the 401(k) plan?

b. Describe in detail all changes made in the plan since January 1, 1994. State the reason(s) for such changes.

7. Refer to Exhibit M, page 4 of 7, of the Application. Explain the purpose of the following:

- a. C & A Auto use.
- b. 401(k) inside.
- c. 401(k) outside.
- d. Dependent life.
- e. Credit union.
- f. Union dues.

8. Refer to Exhibit N, page 18 of 21, of the Application. What is the status of the contribution moratorium on the National Rural Electric Cooperative Association ("NRECA") Retirement and

Security Program? If the moratorium has been lifted, what is Big Sandy's actual contribution for 1996?

9. Refer to Exhibit S, page 1 of 85, of the Application. Provide a detailed schedule of deferred assets in the amount of \$126,036.

10. Refer to Exhibit S, page 2 of 85, of the Application. Provide a detailed breakdown of Account No. 431, Other Interest Expense.

11. Refer to Exhibit S, page 4 of 85, of the Application.

a. Explain the adjustment.

b. Explain why "Hours in Excess of 2,080" in the amount of \$2,691 was deducted from test year actual wages when it appears it was not originally included in that account.

12. Refer to Exhibit S, pages 5 and 6 of 85, of the Application.

a. Explain what is included in the columns labeled "XMAS," "Excess Vacation," "OT," and "Excess of 2080 hours."

b. Explain the difference between the columns labeled "OT" and "Excess of 2080 hours."

c. Explain the rationale for not including "Excess Vacation" and "Xmas" in the projected wages.

d. Provide the sick leave and vacation policies.

e. For each terminated employee, when does Big Sandy anticipate replacing the employee and at what salary level?

13. In determining the increases granted to non-union employees, were any studies conducted concerning the level of wages and salaries of similar positions with other electric cooperatives or industries in the area served by Big Sandy? Provide complete details regarding the results or conclusions of such studies.

14. Provide the overtime hours worked for the 3 years preceding the test year for Employees 18, 20, 21, 23, 25, 27, 28, 30, 31, 32, 33, 35, and 39.

15. Refer to Exhibit S, page 9 of 85, of the Application. Provide the overtime hours for the time periods shown.

16. Refer to Exhibit S, page 9 of 85, of the Application.

a. What factors contributed to the increase in overtime wages from 1993 to 1994?

b. What factors contributed to the decrease in overtime wages from 1994 to the test year?

17. Refer to Exhibit S, page 11 of 85, of the Application.

a. Explain the statement, "FICA and Medicare wages include employee use of cooperative vehicles." Include citations to the appropriate federal statute or regulation.

b. Provide the details of the co-op's policies on vehicle compensation and a schedule of vehicle compensation for the past 3 years.

18. Refer to Exhibit S, page 11 of 85, of the Application.

a. Explain how the adjustment of \$50 was calculated.

b. Provide workpapers showing the calculations for the "hours in excess" of \$206 and "excess vacation" of \$2,051. Explain why these two adjustments are included in the calculation of the payroll tax adjustment.

c. Explain the difference between the proposed FICA expense of \$75,315 on line 16 on page 11 with FICA expense of \$75,966 shown on page 13 of the same exhibit.

d. Explain the difference between the proposed Medicare expense of \$17,645 on line 17 on page 11 with Medicare expense of \$17,861 shown on page 13 of the same exhibit.

19. Refer to Exhibit S, page 11 of 85, of the Application. Do Big Sandy's normalized FICA taxes reflect the impact of premiums for life insurance coverage that exceeds \$50,000 per employee? If not, compute Big Sandy's FICA tax liability for the coverage provided above the \$50,000 limit. Include with this response all supporting workpapers, calculations, and assumptions for the additional tax liability on a per employee basis.

20. Refer to Exhibit S, pages 19, 20 and 21 of 85, of the Application. Reconcile the amounts on the bills from the following taxing districts with the amounts included in the schedule.

a. City of Paintsville.

b. Martin.

c. Breathitt.

21. Refer to Exhibit S, page 22 of 85, of the Application.

Provide supporting workpapers for the tax on vehicles totalling \$4,268.75.

22. Refer to Exhibit S, page 38 of 85, of the Application. Reconcile the Rural Utilities Service ("RUS") normalized interest of \$9,237 and \$307,497 with the annualized cost as shown on Exhibit 4, page 1 of 2, of the Application.

23. Refer to Exhibit S, page 38 of 85, of the Application.

a. Reconcile the loan balances of \$461,861 and \$6,149,933 with the schedule in Exhibit 4, page 1 of 2, of the Application.

24. Refer to Exhibit S, page 38 of 85, of the Application.

a. Provide an explanation of the NRECA past service pension costs.

b. Reconcile the past service pension costs normalized interest of \$0 with the annualized cost of \$11,696 as shown on Exhibit 4, page 1 of 2, of the Application.

25. Refer to Exhibit S, page 39 of 85, of the Application. Is Big Sandy proposing to include the interest expense on these loan funds which were advanced from RUS after the test year? If yes, explain why interest expense incurred outside the test year should be included for rate-making purposes.

26. Refer to Exhibit S, page 50 of 85, of the Application. Explain the difference between columns A, B, and C.

27. Refer to Exhibit S, page 53 of 85, of the Application. Explain the "Adjustment for Checks" of \$423 and the "Adjustment for Billing" of \$640.

28. Refer to Exhibit S, page 53 of 85, of the Application. Explain the increase in the number of checks written for the month of August.

29. Refer to Exhibit S, page 55 of 85, of the Application. Provide the amount(s) outstanding, interest accrued during the test year, date of issue(s), date of repayment(s), and interest rate(s) for the short-term borrowings from CFC.

30. Refer to Exhibit S, page 58 of 85, of the Application. Provide the text for the following radio spots:

- a. 4/5/95, WSIP Radio, \$788.
- b. 9/7/94, WSIP Radio, \$350.75.
- c. 6/6/95, WSIP Radio, \$483.
- d. 1/17/95, WQHY Radio, \$231.40

31. Refer to Exhibit S, page 61 of 85, of the Application.

a. Explain the adjustment of \$4,815 to Directors Expenses.

b. Explain the purpose of the "Other Board Meetings" and whether it is a recurring item.

c. Are directors allowed per diem and actual expenses when attending other meetings?

32. Refer to Exhibit S, page 61 of 85, of the Application.

a. Explain the rationale for providing medical insurance to Big Sandy's directors.

b. Provide the occupations of all directors.

c. Describe the health insurance coverage offered to the directors.

d. Do the directors receive similar benefits from any group or individual medical insurance plan other than that provided by Big Sandy? If yes, from whom?

e. In Case No. 92-560,¹ the Commission did not allow Salt River Electric Cooperative Corporation to include the cost of medical insurance coverage for its directors. In light of this, explain why it is appropriate for Big Sandy to include insurance coverage for its directors in this case.

33. Refer to Exhibit S, pages 62 through 69 of 85, of the Application. Explain the expense incurred for each of the following items and why it should be included for rate-making purposes:

a. Special Board Meeting.

b. Subscription dues.

c. Newsletter.

d. Business cards.

e. Strategic planning.

¹ Case No. 92-560, Application of Rates of Salt River Electric Cooperative Corporation to Adjust Electric Rates, Final Order dated September 28, 1993.

- f. Energy Conference.
- g. Director Training.
- h. Director's Conf-Exp.
- i. Director's Conf.

34. Refer to Exhibit 4, page 1 of 2, of the Application. Explain why the interest on long-term debt which was to mature on November 1991 is included in the test year interest cost.

35. Refer to Exhibit 5 of the Application. For each of the accounts listed below, explain in detail the change in the account balances between the two time periods.

- a. Account No. 371.00 - Security Lights, page 1 of 10.
- b. Account No. 136.00 - Temporary Investments, page 4 of 10.
- c. Account No. 154.00 - Materials & Supplies, page 4 of 10.
- d. Account No. 155.20 - Vehicle Parts, page 5 of 10.
- e. Account No. 165.10 - Prepaid Insurance, page 5 of 10.
- f. Account No. 183.00 - Prelim Survey, page 5 of 10.
- g. Account No. 186.00 - Misc Deferred Debits, page 5 of 10.
- h. Account No. 217.00 - Capital Gains, page 6 of 10.
- i. Account No. 228.30 - Postretirement Benefits, page 7 of 10.

j. Account No. 242.60 - Dependent Life, page 10 of 10.

36. Refer to Exhibit 6 of the Application. For each of the accounts listed below, explain in detail the change in the account balances between the two time periods.

a. Account No. 450.00 - Forfeit Discounts, page 1 of 7.

b. Account No. 456.00 - Other Electric Revenue, page 1 of 7.

c. Account No. 580.00 - Operations-Supervision, page 1 of 7.

d. Account No. 583.00 - Overhead Line Expense, page 1 of 7.

e. Account No. 586.00 - Meter, page 1 of 2.

f. Account No. 587.00 - Consumer Installation, page 2 of 7.

g. Account No. 588.00 - Miscellaneous Distribution, page 2 of 7.

h. Account No. 589.00 - Rents, page 2 of 7.

i. Account No. 593.00 - Maintenance of Overhead, page 2 of 7.

j. Account No. 593.10 - Right-of-Way Maintenance, page 2 of 7.

k. Account No. 593.20 - Contract Right-of-Way, page 2 of 7.

- l. Account No. 595 - Transformer Maintenance, page 2 of 7.
- m. Account No. 597.00 - Meter Maintenance, page 2 of 7.
- n. Account No. 901 - Supervision, page 2 of 7.
- o. Account No. 902 - Meter Reading, page 3 of 7.
- p. Account No. 904.00 - Uncollectibles, page 3 of 7.
- q. Account No. 908.00 - Consumer Assistance, page 3 of 7.
- r. Account No. 913.00 - Advertising, page 3 of 7.
- s. Account No. 923.00 - Outside Services, page 4 of 7.
- t. Account No. 925.00 - Injuries and Damages, page 4 of 7.
- u. Account No. 926.00 - Employee Pensions and Benefits, page 4 of 7.
- v. Account No. 926.10 - Retirement Plan, page 4 of 7.
- w. Account No. 926.20 - Past Service Cost, page 4 of 7.
- x. Account No. 926.30 - 401(k) Savings, page 4 of 7.
- y. Account No. 930.10 - General Advertising, page 4 of 7.
- z. Account No. 930.11 - Directors Per Diem, page 4 of 7.

- 7. aa. Account No. 930.12 - Directors Mileage, page 4 of 7.
- bb. Account No. 930.13 - Directors Expenses, page 4 of 7.
- cc. Account No. 930.40 - Miscellaneous General, page 5 of 7.
- dd. Account No. 935.00 - Maintenance of General, page 5 of 7.
- ee. Account No. 408.20 - FUTA Taxes, page 5 of 7.
- ff. Account No. 408.40 - SUTA Taxes, page 5 of 7.
- gg. Account No. 427.10 - REA Interest, page 6 of 7.
- hh. Account No. 431.20 - Interest - Other, page 6 of 7.
- ii. Account No. 426.10 - Civic, Political, page 6 of 7.
- jj. Account No. 419.00 - Interest Income, page 7 of 7.
- kk. Account No. 435.10 - Extraordinary Items, page 7 of 7.

37. Refer to Exhibit 8 of the Application.

a. Provide the capital credits which were paid out for the last 6 months of 1994.

b. Explain how Big Sandy determined the amount to be paid for the years shown.

38. Refer to Exhibit 9, page 1 of 12, of the Application.

a. Explain how Big Sandy selected the providers of its legal, management, accounting, and other professional services.

b. State when Big Sandy retained its current providers of legal, management, accounting, and other professional services. How frequently is the use of these providers reviewed?

39. Refer to Exhibit 9, page 2 of 12, of the Application.

a. How is Bill Wells affiliated with Big Sandy?

b. Provide the contract or board minutes approving Mr. Wells as a management consultant.

c. Explain Mr. Wells' current job duties and how his compensation is determined.

d. Explain what benefits Mr. Wells receives in addition to what he receives through his retirement package.

40. Refer to Exhibit 9, page 9 of 12, of the Application.

a. Is Bill Wells' retirement package the regular retirement package offered by Big Sandy? If no, explain the differences.

b. Are the forty-four payments of \$675.73 each in addition to the retirement package?

c. Is it normal Cooperative policy for retirees to receive dental and cancer insurance?

d. Is the package which is being offered to Bill Wells similar to other packages that retired managers have received? If no, explain the difference.

41. Refer to Exhibit 9, pages 10, 11, and 12 of 12, of the Application. Describe the purpose of each of the following and explain why it is appropriate for rate-making purposes:

- a. Life insurance, \$1,336.75.
- b. Health insurance, \$8,760.08.
- c. Subscription, \$265.
- d. Travel Expenses, \$1,552.69.
- e. Christmas Hams, \$42.15.
- f. Gift Nuts, \$36.04.
- g. Gift Certificate, \$200.

42. Refer to Exhibit 9, pages 10, 11, and 12 of 12, of the Application.

- a. Does Big Sandy have an in-house attorney?
- b. Do the retained attorneys receive similar benefits from any group or individual medical insurance plan other than that provided by Big Sandy?

43. Refer to Exhibit 11, page 1 of 2, of the Application. Explain why annual meeting costs have increased approximately 19 percent in the past 5 years.

44. Refer to Exhibit 14 of the Application. Reconcile the following expenses as shown on page 1 of 4 with the supporting documentation as shown on pages 3 and 4 of 4:

- a. Institutional advertising.
- b. Director fees and expenses.

c. Miscellaneous.

45. Refer to Exhibit 14 of the application. Reconcile Director fees and expenses totalling \$68,098 as shown on this exhibit with the \$65,862 total shown on page 61 of 85 of Exhibit S.

46. Refer to Exhibit 14, pages 3 and 4 of 4, of the Application. Describe the purpose of each of the following:

- a. Board use/boat, Transaction #51.
- b. Gift nuts/Director KAEC, Transaction #82.
- c. National Earth Comfort East Ky Power, Transaction #5.
- d. NCC PD, Transaction #47.

47. Explain Exhibit 15 of the Application.

48. Refer to Big Sandy's response to Item 2 of the October 19, 1995 Order. Explain where in Exhibit L, pages 1 and 2, of the Application, the rate of return on net investment rate base for the test year and the 5 preceding calendar years is calculated.

49. Refer to Big Sandy's response to Item 15 of the October 19, 1995 Order. Has the Board of Directors ever considered implementing an equity management plan? What are the current policies and practices for achieving the desired equity level, TIER level, and the rotation of capital credits?

50. Refer to Exhibit L of Big Sandy's response to the November 20, 1995 Order.

a. Explain "Construction projects not financed with long-term debt" of (\$810,728).

b. Explain "Unlocated items" of \$61,077.

51. Define the term "excludable plant" as shown on Exhibit H-4, page 5 of 10 (Direct Testimony of Gary G. Stansberry). What distribution plant accounts or categories are included in the \$3,446,002 of excludable plant?

52. Provide all data sets used to estimate the regression equations for poles, conductors, transformers, and services as part of the "Y-intercept" analyses in the cost-of-service study (Exhibit R). Include, at a minimum, the installed costs of various sizes of equipment in the above-named distribution plant categories.

53. Provide all regression results, statistics, and equations and computer output generated as part of the "Y-intercept" analyses. Show estimated regression equations for all distribution plant accounts, including y-intercepts and coefficients for all independent variables, and results of significance tests, such as t-statistics and F-values.

54. Explain "minimum safe construction size" for poles and conductors as stated on Exhibit H-4, page 5 of 10. Why were minimum safe construction sizes used for these distribution plant accounts instead of y-intercepts?

55. Refer to Exhibit R, page 6 of 15. Explain the terms "weighted ACSR & ACWC," "weighted CONV & CSP," and "weighted TPX & WP," shown in footnotes (c), (d), and (e), respectively. How were these items used in the "Y-intercept" methodology?

56. Explain how line losses have been incorporated into the allocation of distribution costs in the cost-of-service study.

57. As explained at Exhibit H-4, page 7 of 10, the average-and-excess methodology was used to allocate distribution demand costs to rate classes. The *Electric Utility Cost Allocation Manual* (January 1992) of the National Association of Regulatory Utility Commissioners, as referred to at Exhibit H-4, page 2 of 10, at page 97 states, "[c]ustomer-class noncoincident demands (NCPs) and individual customer maximum demands are the load characteristics that are normally used to allocate the demand component of distribution facilities." Explain why customer-class NCPs were not used to allocate demand costs in the cost-of-service study shown at Exhibit R.

58. Refer to Exhibit 5, page 74 of 85. The overtime rate for a serviceman is computed at 1-1/2 times the regular rate, but overtime for direct wage expense and other direct costs per hour are computed at 2 times the regular rate. Why are the overtime rates not equal? If the rates shown in this schedule are correct, explain why they are different and justify the difference.

59. Explain why Exhibit J pages 1 through 4 shows an adjustment for fuel while page 5 does not.

60. Explain why the total fuel adjustment for Exhibit J does not agree with Exhibit S, page 2.

61. Refer to Exhibit S, page 2. Provide working papers or schedules to show the derivation of the adjustment to test year of "other electric revenue" (\$36,130.00).

Done at Frankfort, Kentucky, this 8th day of December 1996.

PUBLIC SERVICE COMMISSION


For the Commission

ATTEST:


Executive Director